

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Trisler, Mercer County Judge/Executive
The Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Mercer County, Kentucky, for the year ended December 31, 2004.

We engaged Tichenor & Associates, LLP, to perform the audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP, evaluated the Mercer County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MERCER COUNTY SHERIFF

For The Year Ended
December 31, 2004

Tichenor & Associates, LLP has completed the Mercer County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$767 from the prior year, resulting in excess fees of \$19,483 as of December 31, 2004. Revenues increased by \$22,222 from the prior year and expenditures increased by \$22,989.

Report Comments:

- The Sheriff's Office Should Deposit Money Collected From The Sale Of Calendars Into An Official Bank Account
- The Sheriff's Office Should Turn Over Vending Machine Commissions To The County Treasurer
- The Sheriff's Office Should Deposit Receipts On A Daily Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Place Restrictive Endorsements On Checks
- The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	16

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The Honorable John Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Mercer County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2005 on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable John Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Should Deposit Money Collected From The Sale Of Calendars Into An Official Bank Account
- The Sheriff's Office Should Turn Over Vending Machine Commissions To The County Treasurer
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Deposit Receipts On A Daily Basis
- The Sheriff's Office Should Place Restrictive Endorsements On Checks
- The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Mercer County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed –
November 22, 2005

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$	23,676
State Fees For Services:			
Sheriff Security Service	\$	18,886	
Fees for Services		27,063	
Finance and Administration Cabinet		<u>4,831</u>	50,780
Circuit Court Clerk:			
Fines and Fees Collected			1,800
Fiscal Court			70,325
County Clerk - Delinquent Taxes			4,273
Commission On Taxes Collected			267,021
Fees Collected For Services:			
Auto Inspections	\$	3,859	
Accident and Police Reports		331	
Serving Papers		21,450	
Carrying Concealed Deadly Weapon Permits		<u>4,760</u>	30,400
Other:			
Conveying Convicts	\$	8,631	
In Lieu of Taxes		1,864	
Fees on Taxes		30,269	
Fees Collected for Fiscal Court		10,150	
Miscellaneous		<u>884</u>	51,798
Interest Earned			2,222
Borrowed Money:			
State Advancement	\$	162,000	
Short-Term Note		<u>3,000</u>	<u>165,000</u>
Total Revenues			<u>\$ 667,295</u>

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 RALPH ANDERSON, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	295,508	
KLEFPF and Retirement		23,674	

Employee Benefits-

Training Fringe Benefit		1,047	
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Contracted Services-

Advertising		493	
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Materials and Supplies-

Office Materials and Supplies		5,614	
Officer's Supplies		6,812	
Communication Equipment		9,581	
Uniforms		2,648	

Auto Expense-

Gasoline		25,653	
Maintenance and Repairs		13,664	
Mileage			
Vehicle Insurance			
Depreciation			

Other Charges-

Dues		652	
Postage		5,367	
Carrying Concealed Deadly Weapon Permits		2,215	
Data Processing		1,606	
Payments to Fiscal Court		10,150	
Extradition		4,962	
Miscellaneous		1,169	
		<u>1,169</u>	\$ 410,815

Debt Service:

State Advancement	\$	162,000	
Short-Term Note		3,000	
Interest on Short-Term Note		85	
		<u>85</u>	<u>165,085</u>

Total Expenditures			<u>\$ 575,900</u>
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The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 RALPH ANDERSON, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Net Revenues	\$ 91,395
Less: Statutory Maximum	<u>69,592</u>
Excess Fees	\$ 21,803
Less: Training Incentive Benefit	<u>2,320</u>
Excess Fees Due County for 2004	\$ 19,483
Payments to Fiscal Court - March 21, 2004	19,400
Payments to Fiscal Court - November 21, 2005	<u>83</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

Note 4. Lease

The office of the County Sheriff was committed to a lease agreement with Bamill, LLC for a digital copier. The agreement requires a monthly payment of \$184 for 36 months to be completed on August 15, 2007. The total remaining balance of the agreement was \$5,689 as of December 31, 2004.

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 5. Drug Forfeiture Account

The Mercer County Sheriff's office maintains a Drug Forfeiture account with State Bank & Trust Co. This account holds money confiscated during drug arrests and does not have to be included in the Sheriff's excess fee calculation. The Drug Forfeiture account funds may be used for drug-related law enforcement. The balance in this fund at the beginning of the year was \$6,175. Receipts for calendar year 2004 totaled \$1,479 and expenditures totaled \$4,063. The balance at December 31, 2004 was \$3,591.

Note 6. Grants

The Mercer County Sheriff's office received a \$5,000 grant during the year ended December 31, 2004 from Purdue Pharma Technologies. Grant proceeds are to be used for conducting Rx drug investigations with the primary focus on the abuse and diversion of OxyContin®. The unexpended grant balance was \$5,000 as of December 31, 2004.

COMMENTS AND RECOMMENDATIONS

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff's Office Should Deposit Money Collected From The Sale Of Calendars Into An Official Bank Account

During calendar year 2004, \$1,600 had been collected in calendar money from Royce Publications. The receipt of this money cannot be accounted for. Per KRS 61.310, as amended by SB 129, the Sheriff is now allowed to accept donations (including calendar money). These funds must be deposited into a separate donation bank account. These funds must be used for a public purpose, listed on a registry, and subjected to audit. We recommend the Sheriff comply with KRS 61.310 by depositing all calendar money into an official donation bank account, using these funds for a public purpose, and by maintaining accurate records of these receipts, subject to audit.

Sheriff's Response:

We will open a separate account for calendar money.

The Sheriff's Office Should Turn Over Vending Machine Commissions To The County Treasurer

Beginning in October 2003 (until present), \$1,560 had been paid over in vending machine commissions from Pepsi. The receipt of this money cannot be accounted for. Any money collected from the commissions of vending machines should be turned over to the County Treasurer since this is money earned on property of the county. The County Treasurer shall then deposit these commissions into the County's official bank account. We recommend that all commissions received from the vending machines be turned over to the county as noted above.

Sheriff's Response:

We will be sure these monies get forwarded to the County Treasurer.

The Sheriff's Office Should Deposit Receipts On A Daily Basis

Proper internal control procedures require that receipts be deposited daily. During our review, we noted that the Sheriff's office does not deposit receipts daily. KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting requirements, which include depositing receipts intact on a daily basis into a federally insured banking institution. We recommend the Sheriff's office deposit all receipts daily.

Sheriff's Response:

Will comply with this item.

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options of establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset these internal control weaknesses.

- Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Sheriff could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.
- The Sheriff should periodically, compare the daily bank deposit to the daily checkout sheet and then compare the daily check out sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.
- The Sheriff should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff should document the review by initialing and dating the invoices.

Sheriff's Response:

I understand the need for segregation of duties and will continue to improve them.

The Sheriff's Office Should Place Restrictive Endorsements On Checks

Proper internal control procedures require that a restrictive endorsement be placed on incoming checks as soon as received. Restrictive endorsements are not placed on checks until the deposit is being prepared. We recommend that a restrictive endorsement be placed on incoming checks as soon as received.

Sheriff's Response:

Will comply with this item.

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS: (Continued)

The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases

Gasoline purchases made during 2004 totaled \$25,653. Invoices totaling \$23,781 were examined to determine if these purchases were for official business of the Sheriff's office. Only \$6,218 of these purchases had proper identification, leaving \$17,563 of unidentified gasoline purchases. Of this amount, \$7,471 was for gasoline purchased in bulk and stored in a tank maintained at the County Road Department for the use of the Sheriff and his deputies. In order to improve internal controls, we recommend that future gasoline purchases include the signature of the individual making the purchase, along with the license plate number, unit number and mileage of the vehicle. The Sheriff should also require a log be maintained at the Road Department to provide the proper identification as noted above.

Sheriff's Response:

We will reconcile our gas bills accordingly.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

This was not corrected and is repeated in the current year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable John Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Mercer County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated November 22, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Place Restrictive Endorsements On Checks
- The Sheriff's Office Should Improve Internal Controls Over Gasoline Purchases

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are a material weakness.

Report On Internal Control Over Financial Reporting And
On Compliance And On Other Matters Based On an Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

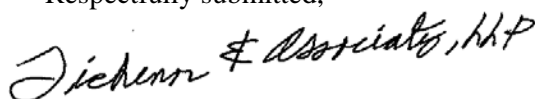
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff's Office Should Deposit Money Collected From The Sale Of Calendars Into An Official Bank Account
- The Sheriff's Office Should Turn Over Vending Machine Commissions To The County Treasurer
- The Sheriff's Office Should Deposit Receipts On A Daily Basis

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed –
November 22, 2005

